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The BRASS TACKS *of* MONETARY REFORM

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Premier of Alberta

THE BRASS TACKS OF MONETARY REFORM

DURING war time the people of a country are necessarily called upon to make sacrifices in blood, sweat, tears, heartache and endurance in order to preserve their freedom. But monetary reformers maintain that the people need not and should not have to bear unnecessary hardships in the form of avoidable debt and needless tax burdens which will keep them in bondage for generations to come. Surely no thinking person with a sense of justice and fair play could disagree with that statement.

Yet experience of past wars has taught us that under the present monetary system huge national war debts are piled up, imposing heavy interest burdens on the people, and that these debts can never be repaid.

No nation has ever paid off its war debt under the present system.

A glance at the national debt record of Canada, Great Britain and the U.S.A. should convince anyone that certain collapse, leading to disaster, lies ahead if something is not done before it is too late.

	Canada	Great Britain	U.S.A.
1914	544	3,530	1,188
1919	2,676	37,455	25,482
1940	4,028	57,500	42,968

(Expressed in millions of dollars—par exchange approx.)

If in peace time we could not meet the debts incurred during the last war, but continued to pile up new debts, how in the name of common sense will we be able to

meet all these old debt burdens plus the enormous new debts we are accumulating, and also put into operation the sweeping reconstruction policies essential in the post-war period?

The plain truth is that under our present system it is impossible to repay our debts except by incurring new and greater debts. And every increase in debt means increased tribute in the form of interest and that means increased taxation.

In 1900 the average annual federal tax burden on every man, woman and child in Canada was $7. By 1914 it had increased to $16. By 1930 the annual per capita federal tax was $37. To-day federal taxation absorbs the astounding average of about $90 per capita, per annum, or an average of $360 per family per annum. On top of this the unfortunate taxpayer has to meet provincial and municipal taxes as well.

Even orthodox circles are becoming alarmed. A contributor to "The Wall Street Journal" of July 11, 1941, made this remarkable statement:

". . . The Dominion is now developing an economy, and piling up a fantastic debt, which cannot be sustained by the existing population. . . ."

A system, which results in a country plunging into debt beyond the ability of its population to sustain it, is a national menace—particularly at such a critical time as this—and should be thoroughly overhauled with promptitude and efficiency.

The clear issue before us to-day is whether Canada's part in this titanic struggle is to be financed by national debt or national credit. In other words, are we to continue under a system which gives to a privately controlled monopoly the sole right to issue our money and place the nation in debt bondage to them, or will the federal government assume the sovereign power of

issuing and controlling our money without involving us in this suicidal policy of skyrocketing our debt to astronomical proportions?

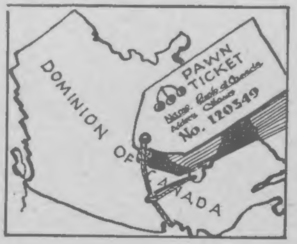
The broad proposals for a democratic reform of our monetary system are simple and straightforward. Moreover, they provide the only way of escape from the creeping paralysis of debt which threatens us at this crucial time. The main features of such a scheme are:

1—National Control of Monetary Policy: Control of the monetary system automatically carries with it control over the entire economic life of the country. It is a sovereign power which should be vested only in parliament on behalf of the people.

Therefore, a national finance commission should be established, to be responsible to parliament through the Minister of Finance (*a*) for the issue and withdrawal of all money (both currency and credit) in accordance with the nation's need, and (*b*) for the administration of the monetary system in accordance with the principles of true democracy.

2—Banks and Banking: It is manifestly undemocratic that the sovereign power of creating, issuing and withdrawing money or credit, thereby controlling economic policy, should be exercised by private institutions. This power vested in the chartered banks at the present time should be discontinued and the banks should be elevated to the position of "servants of the public" under the effective control of the government.

Moreover, it is an obvious absurdity that a democratic government vested with sovereign authority over the monetary system should be obliged to put the nation in pawn to the banks in order to borrow money for national purposes. In point of fact the position should be reversed.



Therefore, chartered banks should cease to create, issue and withdraw financial credit, except as agents for the

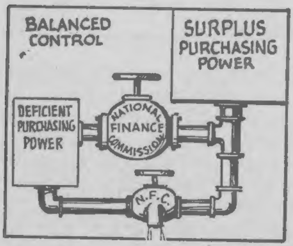
National Finance Commission, and they should be required to hold currency or credit certificates, issued by the National Finance Commission through the Bank of Canada, against their total deposits.

3—Safeguards Against Inflation and Deflation: It is a basic principle of any scientific monetary system that money should be created and issued as goods are produced, and it should be withdrawn and cancelled as goods are consumed. Furthermore, this should be done in such a manner that at all times the public should have purchasing power equal to the collective prices of goods on the market, wanted by the public.

If the total purchasing power is more than the total prices of goods for sale, a condition of "inflation" will at once become evident and must be rectified forthwith. If the total purchasing power is less than the total prices of goods for sale then a condition of "deflation" will immediately reveal itself and more purchasing power must be released to enable producers to obtain fair prices and overtake their production costs.

The principle of maintaining balance between consumer purchasing power and the prices of goods for sale to consumers is fundamental to any sound monetary system, either in peace or in war.

Therefore, the National Finance Commission should be required to establish a proper system of accounting, and, from time to time, ascertain the total prices of goods available for purchase by consumers and the total purchasing power of the public. Any surplus purchasing power should be withdrawn by means of an equitable system of taxation and any deficiency of purchasing power should be corrected by reduced taxation or by an increased issue of credit in the most equitable way possible.



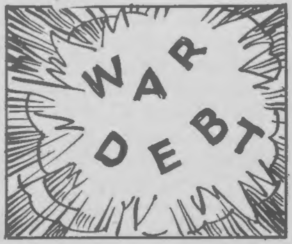
4—Orderly Price Regulations:

(a) The prices of primary products and in particular agricultural products, as required, should be regulated to

provide producers with guaranteed prices equivalent to the average cost of production plus a reasonable profit for their services to the nation.

(b) A system of price regulation should be introduced to ensure that prices will not be inflated by unwarranted profit taking. A shortage of goods, either because of curtailed production due to the prior needs of war industries or to restricted imports for conserving foreign exchange, should be apportioned for the period of war on an equitable basis.

5—War Finance: During war time a vast amount of energy and resources are consumed and destroyed in fighting the enemy. This diversion of economic effort and materials used in production of war supplies constitutes what is called the real economic cost of the war. At the end of the conflict, since this energy and these resources have been all consumed, the real economic cost has been supplied.



The monetary system, as such, should accurately reflect the foregoing reality. There should be no war debt after the struggle is over, except for goods obtained from other countries, settlement for which has not been made in terms of exports.

Moreover, it should be noted that in the production of war supplies incomes are distributed to those engaged in these war industries, and, in addition, incomes are distributed to the fighting services. These incomes constitute a demand on the available supply of goods for sale to consumers. If these incomes should cause "a surplus" of purchasing power, the inflationary tendency could be met by the provision of Section 3 (page 4). In other words, the nation could "pay-as-we-go" for the financial cost of the war.

Therefore, it should not be necessary for the Federal Government to borrow for either war or normal expenditures (except for purchase of war supplies from outside the

country, settlement for which is not made by exports). The requisite money should be made available by the Bank of Canada and "surplus" purchasing power should automatically be withdrawn via taxation. By this means a scientific check against inflation would be in operation continuously.

6—Financing Industry and Trade: Industrial and trade requirements would be met, as at present, by means of loans from chartered banks on such terms as the National Finance Commission may authorize as being equitable to both borrowers and the banks. Special facilities should be provided for firms engaged on war contracts.

The adoption of the foregoing proposals for conscripting the monetary system in the service of the nation could be carried out smoothly and without any disruption of our economy. They would result in increased efficiency in our war effort, and they would, moreover, enable us to deal with our main problems and at the same time prepare for the needs of post-war reconstruction.

The alternative confronting us is to submit to the creeping paralysis of ever increasing debt, and its twin evil, of strangling taxation.

The great Greek philosopher, Demosthenes, who lived about 2,300 years ago, is recorded as having stated:

"And are you so unintelligent, men of Athens, as to hope that the same policy that has brought our state from success to failure will raise us from failure to success?"

Do we imagine that the policy of plunging into ever mounting debt, combined with crushing taxation, which created such havoc in Canada during peace time, is going to take us into a new post-war era of prosperity? It is manifestly absurd.

I feel confident that the people of Canada will face up to this great challenge—for in peace or in war the fate of Canada rests with the people.

There is a tendency in some quarters to blame the government. However, the people must recognize that in these matters the responsibility rests with them. It is not necessary to have the government changed at a critical time like this but it is most essential that the people, upon whose heads the calamity will fall, should insist that the government in power recognize these principles and put them in force or that men who understand the modern progressive monetary reform policy should be given an opportunity to carry into execution, as smoothly and as rapidly as possible, the changes that will remove the threatening disaster.

No. 3

Other leaflets are in course of preparation.

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